

SECRET

21 APR 1971

MEMORANDUM FOR: Dr. Henry A. Kissinger  
Assistant to the President for  
National Security Affairs

SUBJECT : Senator McIntyre's Request to the  
General Accounting Office for an  
Evaluation of US and USSR R&D  
Expenditures

1. Please refer to my note of 13 April 1971 forwarding a letter from the Comptroller General, Mr. Staats, concerning Senator McIntyre's request.

2. As you know, by agreement with DOD, CIA is responsible for all costing on Soviet military and military-related R&D programs. For this reason, the GAO people are asking the people in my Office of Strategic Research for their help in meeting the request levied on them by Senator McIntyre.

3. We do not wish to be unresponsive but before I give the go-ahead on this I want to be sure you understand and approve the relationship. For one thing, this will be the first time we have provided intelligence information of this degree of detail to the General Accounting Office. And secondly, to respond completely to the questions asked of GAO by the Senator, we find it will be necessary to clear a few GAO persons for access to satellite reconnaissance

[REDACTED]

4. I would appreciate hearing from you on this, particularly if either of the aspects mentioned above gives you any problem.

[REDACTED]

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[REDACTED]

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5. I am sending a copy of this memorandum to Secretary Laird for his information and comment.

Richard Helms

Richard Helms  
Director

Copy furnished:

The Honorable Melvin R. Laird  
The Secretary of Defense

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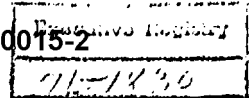
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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

April 9, 1971

Dear Dick:

Confirming our telephone conversation this afternoon, I am enclosing a copy of a letter from Senator McIntyre which is self-explanatory.

Members of our staff met with Mr. Eberhardt Rechtin, Principal Deputy Director, Defense Research and Engineering, to obtain background on the statement presented by Dr. Foster in his testimony before the Senate Armed Services Committee. We are arranging to obtain a copy of the DOD study.

STAT  
Mr. Rechtin referred to the helpful information which he had obtained from [ ] and [ ] has been contacted by Harold Rubin of our staff.

A study of the type requested by Senator McIntyre is of course not the first of such efforts but it is a very difficult one. We would appreciate very much your cooperation and designation of an individual with whom we can work.

Needless to say, staff of this Office assigned to the study will have the necessary security clearance.

Best wishes.

Sincerely,

Elmer B. Staats

Enclosure

The Honorable Richard Helms, Director  
Central Intelligence Agency  
Washington, D.C. 20505

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WASHINGTON, D.C. 20510

April 1, 1971

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The Honorable Elmer B. Staats  
Comptroller General of the United States  
General Accounting Office Building  
Washington, D.C.

Dear Mr. Staats:

In recent testimony to the Senate Armed Services Committee, Dr. John S. Foster, Jr., Director of Defense Research and Engineering, warned of the existence of a \$3 billion gap between U.S. and U.S.S.R. expenditure levels for defense-related research and development:

" . . . it appears that this year the Soviet Union will be devoting about 40 to 50 per cent more in equivalent effort to military R&D than the U.S. This additional effort amounts to about 3 billion in equivalent U.S. dollars." (Statement of March 18, 1971, p. 2-5)

The clear inference to be drawn from this statement is that U.S. expenditures of about \$7 billion for military R&D are now exceeded by Soviet expenditures of about \$10 billion annually.

Such a statement has obvious national security implications. Because it is important that we neither underestimate nor magnify Soviet expenditures in this area, I am writing to request your assistance in evaluating both the data and the methodology on which the Defense Department's conclusion is based.

How was the conclusion reached? How much confidence should be placed in this or any other study which attempts to compare U.S. and Soviet expenditure levels for military R&D? A study by the General Accounting office is the best means I can think of for obtaining at least tentative answers to these questions.

Mr. Staats  
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The study I envisage would have four parts:

1) Dollar evaluation of U.S. research and development expenditures:

Defense-related research and development expenditures constitute only a part of our total R&D expenditures as a nation, yet expenditures in other areas also contribute to differing degrees both to the strength of our overall technological base and to our military potential. It is important, therefore, that there be made available to the Congress a comprehensive picture of our total R&D effort as a nation, together with an indication of its allocation into component parts. Because of their close relationship to military technology, I am especially interested in the amount of money being directed annually to the fields of space and atomic energy research, both by the government and private industry.

Moreover, not all of our clearly defense-related research and development expenditures are funded through the annual R.D.T.&E. budget of the Department of Defense. The following should also be included in an accurate assessment of our total annual expenditures in this field:

a) the annual costs of defense contractors' independent research and development, bid and proposal, and other technical effort programs, both that fraction financed directly by the Department of Defense and that defense-related fraction financed by the contractors themselves under cost-sharing provisions now in force;

b) the annual salaries of military and civilian government personnel working on defense-related research and development efforts whose salaries are not included in the R.D.T.&E. appropriation;

c) the annual construction, equipment, testing, and other operating costs of defense-related research and development installations to the extent not funded in the R.D.T.&E. appropriation; and

d) defense-related costs of an R&D nature often funded in the procurement or other appropriations, such as the costs of many modernization programs, work done pursuant to Engineering Change Proposals, and many Advance Production Engineering expenditures.

The above list is, of course, illustrative rather than all-inclusive. Other costs which should be included in a calculation of

our total defense-related R&D expenditures might well turn up during the course of your study. It is important, however, that the Congress be given as accurate a picture of these expenditures as possible, together with a clear indication as to which of the component items, and at what levels of expenditure, have been included in the Defense Department's study and your own, respectively.

2) Ruble evaluation of Soviet research and development expenditures:

Due to the extreme secrecy surrounding Soviet defense activities and the low reliability of officially published Soviet data, it would seem extremely difficult to gauge the precise magnitude of Soviet research and development activities at any time. If the Congress is to put any reliance on the Defense Department's estimates in this area, it will have to have a clear indication of how these estimates are derived.

The following are among the questions to which answers are urgently needed and should be possible:

a) What are the Defense Department's estimates of overall Soviet research and development expenditures, Soviet expenditures on defense-related R&D, and Soviet expenditures on R&D in the fields of space and atomic energy?

b) Where in the official Soviet budget categories are these expenditures believed to be funded?

c) To what extent are Defense Department estimates of these expenditures actually based upon published Soviet budget data, and to what extent on other means of what kinds?

d) What range of error can realistically be expected to be associated with these estimates?

e) To what extent has the Defense Department attempted a break-out of its aggregate estimate of Soviet defense-related R&D expenditures into component parts? What is the nature of this break-out, how was it accomplished, and how reliable can it be expected to be?

3) Evaluation of potential biases due to structural differences between the U.S. and Soviet economies:

Ours is a largely private enterprise economy, while the Soviet economy is state-controlled. Consequently, many types of research

Mr. Staats  
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and development privately financed in the U.S. will be financed directly by the Soviet government.

In the U.S., for example, the great bulk of basic and applied research in such fields as computers, instrumentation, and micro-electronic technology is conducted by private enterprise. Much of this research has obvious potential for military applications yet except for the relatively small portion financed under defense contracts or associated with the Defense Department's independent research and development and related programs, it would not be included normally in a calculation of overall U.S. defense-related R&D expenditures. In the Soviet Union, on the other hand, similar research will be government funded and might more readily be included in a calculation of Soviet expenditures.

One important part of your study might be to examine the composition underlying the aggregate Defense Department estimates of U.S. and Soviet defense-related expenditures, respectively, to ensure that structural differences in the two economies are not allowed to bias the results. An accurate comparison would require additions to the U.S. total to offset all inclusions in the Soviet total of defense-related work funded by the Government in the Soviet Union but by private industry in the United States.

4) Evaluation of ruble to dollar conversion methodology:

One of the most crucial aspects of any comparison between Soviet and U.S. expenditures is the choice of an exchange rate for translating rubles into dollars. The artificial nature of the official exchange rate prevents its being used, but the choice of an alternative rate is difficult.

This section of your study might address the following questions:

a) What was the exchange rate used by the Defense Department in its calculations, and by what precise methodology was this rate derived?

b) Is there any way of deriving such a rate without, in effect, estimating directly how much it would cost to do in the United States the Soviet work which is being costed? Do we know enough about the precise nature of the Soviet work in question to be able to make such a calculation? If such a procedure was utilized by the Defense Department with respect to the present comparison, what different rates were chosen for the different

Mr. Staats  
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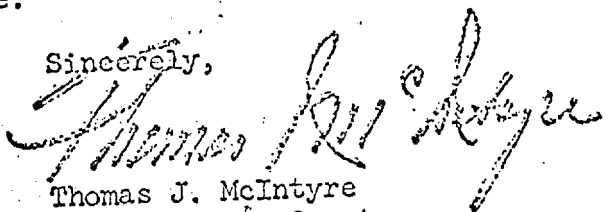
categories of Soviet effort underlying the total, and how was the rate for each of these categories derived?

c) What range of error can realistically be expected to be associated with the exchange rate chosen by the Defense Department?

I fully recognize the complexity of the study I am requesting you to make, but I would appreciate an interim report on your investigation by June 1, 1971. It should be possible within the next two months at least to identify the rough magnitude of overall U.S. expenditures for defense-related R&D and to determine the data and methodology used by the Defense Department in calculating comparable Soviet expenditures. Due to the sensitive nature of some of the information on which your study will have to be based, I would like to receive both a classified and an unclassified version of your interim report. When that report is received, consideration as to the practicality and advisability of a more detailed, in-depth study of the Defense Department's comparisons of U.S. and Soviet efforts will be in order.

Your cooperation in undertaking at least the initial phases of the investigation I have outlined would be deeply appreciated. My staff will be available to consult with personnel of your office as to any questions you may have.

Sincerely,

  
Thomas J. McIntyre  
United States Senator

TJM:RHS



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